

State Dept. review completed

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E.O. 12065: GDS 06/23/88 (VEST, GEORGE S.) DR-M  
 TAGS: OVIP (BROCK, WILLIAM)  
 SUBJECT: BROCK VISIT TO BRUSSELS

## 1. (C-ENTIRE TEXT)

2. SUMMARY: AMBASSADOR BROCK MET WITH EC COMMISSIONERS JUNE 23 FOR TOUR D'HORIZON ON U.S.-EC TRADE PROBLEMS. DISCUSSION CENTERED AROUND EC CONCERNS OVER 1) U.S. DECISIONS ON STEEL AND SOVIET GAS PIPELINE; 2) GATT MINISTERIAL; AND 3) NEED TO MANAGE U.S.-EC TRADE DISPUTES IN THE CONTEXT OF OUR OVERALL POLITICAL/ECONOMIC RELATIONS. BOTH SIDES AGREED THAT IT WAS NECESSARY TO SHOW SOME PROGRESS ON MAJOR CURRENT PROBLEMS TO KEEP RELATIONS ON AN EVEN KEEL AND PRESERVE THE POSSIBILITY OF MEASURABLE ACHIEVEMENTS AT THE NOVEMBER GATT MINISTERIAL. STEEL ISSUE WAS THE ONLY ONE ON WHICH SOME NEAR TERM SOLUTION WAS DEEMED POSSIBLE. ATMOSPHERE WAS SOMBER BUT NOT UNFRIENDLY. WITH ALL PARTICIPANTS SHOWING A CLEAR APPRECIATION OF THE SERIOUSNESS OF THE CURRENT IMPASSE AND THE LIMITED OPTIONS AVAILABLE FOR ADDRESSING IT. END SUMMARY.

3. USTR BROCK AND AMBASSADOR SMITH OF USTR GENEVA SPENT MORNING OF JUNE 23 IN A SERIES OF MEETINGS WITH COMMISSION PRESIDENT THORN, VICE PRESIDENTS HAFERKAMP AND DAVIGNON, ROY DENMAN, AND ASSORTED AIDES. THIS MESSAGE SUMMARIZES THE PRINCIPAL TOPICS COVERED IN THOSE DISCUSSIONS.

## 4. STEEL

COMMISSION OPENED WITH EXPRESSIONS OF DEEP CONCERN OVER PRELIMINARY U.S. DECISION ON EC STEEL SUBSIDIES. EC CRITICISM WAS DIRECTED AT DECISION IN PRINCIPLE. IN DAVIGNON'S VIEW IT UNDERCUT THE COMMUNITY'S WHOLE RE-STRUCTURING EFFORT, WHICH WAS BASED ON TRANSPARENT STATE AIDS CLOSELY MONITORED AND CONTROLLED BY THE COMMISSION. SPECIFIC ELEMENTS OF THE SUBSIDY DETERMINATIONS WERE ALSO STRONGLY ATTACKED. DAVIGNON AND DENMAN ARGUED THAT THE U.S. HAD COME UP WITH NOVEL AND EXTREME INTERPRETATIONS WHICH CARRIED POSSIBLE DEFINITIONS OF A SUBSIDY UNDER THE

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82 8895407 SCO

PAGE 002

NC 8895407

TOR: 232108Z JUN 82

CODE TO THEIR ABSOLUTE LIMITS AND WHICH, IF GENERALIZED AND IMITATED BY OTHER TRADING PARTNERS WOULD BLOW UP THE TRADING SYSTEM. DAVIGNON ARGUED FORCEFULLY THAT THE U.S. POLICY WOULD DRIVE THE COMMUNITY AGAIN TO DISGUISE ITS SUBSIDIES AND TO PURSUE SIMILAR TACTICS AGAINST THE U.S. AMBASSADOR BROCK DID NOT ADDRESS SPECIFIC TECHNICAL COMPLAINTS, BUT NOTED THAT IRRESPECTIVE OF CERTAIN INTERPRETATIONS, SUBSIDIES TO A NUMBER OF EC STEEL FIRMS WERE SIGNIFICANT AND HAD TO BE DEALT WITH. HE LEFT THE DOOR OPEN FOR FUTURE TALKS ON A STEEL ARRANGEMENT, WHICH BOTH SIDES AGREED WAS THE ONE SECTOR AMONG THE ARRAY OF PROBLEMS IN OUR TRADE RELATIONS WHERE AN AGREEMENT IN THE NEAR TERM MIGHT BE ENVISIONED. DAVIGNON CAUTIONED THAT WE SHOULD NOT RAISE PUBLIC EXPECTATIONS WHILE WE SEARCH OUT WAYS TO MOVE AHEAD ON THIS ISSUE.

5. SOVIET GAS PIPELINE

LAST WEEK'S U.S. DECISION ON THE PIPELINE WAS A SOURCE OF EQUALLY INTENSE COMMISSION CONCERN. DAVIGNON NOTED THE ABSENCE OF ANY PRIOR NOTICE OR CONSULTATIONS, FOR WHICH HE BELIEVED HE HAD RECEIVED COMMITMENTS EARLIER IN THE YEAR FROM SENIOR OFFICIALS IN WASHINGTON. HAFERKAMP EMPHASIZED THE LARGE POLITICAL DIMENSIONS OF THE DECISION. IF CERTAIN EUROPEAN FIRMS, SPECIFICALLY AEG OF GERMANY, WERE TO GO UNDER AS A RESULT OF THE LOSS OF ORDERS CONNECTED TO THE PIPELINE, REACTION AGAINST THE U.S. WOULD BE EMOTIONAL AND WOULD STRENGTHEN THE HAND OF THOSE WHO SEEK TO WEAKEN ATLANTIC SOLIDARITY. UNEMPLOYMENT IS A CRITICAL POLITICAL ISSUE, AND THE RIOTERS WHICH GREETED PRESIDENT REAGAN IN BERLIN MIGHT EASILY BE AUGMENTED BY THE U.S. ACTION. AMBASSADOR BROCK REPLIED THAT HE DID NOT PARTICIPATE DIRECTLY IN THE PIPELINE DECISION, BUT COULD WELL IMAGINE THAT THE ACTION IN PART WAS A REACTION TO THE LACK OF EUROPEAN SUPPORT FOR U.S. EAST-WEST INITIATIVES OVER THE PAST MANY MONTHS.

6. GLOBAL APPROACH

COMMENTS ON STEEL AND THE PIPELINE WERE A NATURAL LEAD-IN TO A COMMISSION PLEA THAT U.S. TAKE MORE OF A GLOBAL APPROACH TO ITS ECONOMIC RELATIONS WITH THE COMMUNITY AND TO BE MORE SENSITIVE TO THE IMPACT OF U.S. DECISIONS IN THE ECONOMIC AND TRADE SPHERE ON OVERALL POLITICAL RELATIONS.

BOTH DAVIGNON AND HAFERKAMP URGED A LARGER POLITICAL OVERVIEW OF THE MULTIPLICITY OF ECONOMIC FRIC-TIONS NOW AFFECTING OUR RELATIONSHIP.

7. GATT MINISTERIAL

BOTH SIDES AGREED THAT GENUINE PROGRESS WAS ESSENTIAL IN NOVEMBER TO MAINTAIN THE CREDIBILITY OF THE TRADING SYSTEM AND OUR COMMITMENTS TO IT. THE COMMISSION MADE CONTINUED REFERENCE TO THE EFFECT OF OTHER U.S. ACTIONS ON ITS ABILITY TO COLLECT MEMBER STATE SUPPORT FOR MUTUALLY ADVANTAGEOUS INITIATIVES AT THE MINISTERIAL. THE EMPHASIS WAS AGAIN ON WORKING OUT SOME ARRANGEMENT IN STEEL, WHICH WOULD DEMONSTRATE THAT OUR CONFLICTS WERE NOT IRRESOLVABLE AND THAT THERE WAS INDEED MERIT IN MOVING AHEAD ON A TRADE AGENDA FOR THE FUTURE. BOTH SIDES AGREED ON THE IMPORTANCE OF AN EARLY MEETING TO FIRM UP OUR INTENTIONS ON A NUMBER OF EXISTING GATT QUESTIONS SUCH AS SAFEGUARDS, AGRICULTURE, AND THE COUNTERFEIT CODE.

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PAGE 003

NC 8895407

TOR: 232108Z JUN 82

8. COMMENT: COMMISSIONERS DEEPLY APPRECIATED THE OPPORTUNITY TO LAY OUT THEIR CONCERNS IN FULL TO AMBASSADOR BROCK. THE RATHER STRAINED ATMOSPHERE OF THE EARLY DISCUSSIONS REFLECTED THE ATMOSPHERE THEY HAD ENCOUNTERED AT THE LUXEMBOURG FOREIGN MINISTERS MEETING THE DAY BEFORE AND WAS ALSO INDICATIVE OF THE DIFFICULTY THE EC IS HAVING IN COMING TO GRIPS WITH THE CHALLENGES TO ITS POLICIES POSED BY THE U.S. DURING CONVERSATION WITH THORN AND THEREAFTER, TONE MODERATED CONSIDERABLY. NONETHELESS, WITH THE EXCEPTION OF STEEL THERE WERE NO INDICATIONS OF COMMISSION FLEXIBILITY ON SPECIFIC SUBSTANTIVE ISSUES BEYOND THORN'S DETERMINATION TO CONTINUE WORKING CLOSELY WITH US TO FIND A WAY OUT OF PRESENT DIFFICULTIES. VEST  
END OF MESSAGE

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